MAKASEB EMIRATES EQUITY FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION TO
DECEMBER 31, 2005

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

Chairman	Mr. Nabeel Waheed Shaikh
Directors	Mr. Ambi Venkateswaran Mr. Omar Bouhadiba Mr. Ali Raza Khan
Registered Office	14th Floor, City Garden, P. O. Box 140, Manama, Kingdom of Bahrain.
Banker	Mashreqbank psc. Dubai, U.A.E.
Fund Manager	Mashreqbank psc. Dubai, U.A.E.
Administrator & Custodian	Gulf Investment Corporation, Kuwait
Auditor	Deloitte & Touche, P.O. Box 421, Manama, Kingdom of Bahrain.

MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

The Directors present the annual report and financial statements for the period from inception to December 31, 2005.

PRINCIPAL ACTIVITY

The fund is a collective investment scheme and its primary objective is to achieve long term capital appreciation by investing mainly in the shares of companies listed on the stock exchange of the United Arab Emirates.

REVIEW OF BUSINESS

The results of the operations of the Fund are summarized on page 4.

APPROPRIATIONS

None

CHANGES IN DIRECTORS

None

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending December 31, 2006 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the Board

Director
March 26, 2006

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INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

Makaseb Emirates Equity Fund,
Manama,
Kingdom of Bahrain.

We have audited the statement of assets and liabilities of MAKASEB EMIRATES EQUITY FUND (the "Fund") as at December 31, 2005 and the related statements of income and cash flow for the period from inception to December 31, 2005 as set out on pages 3 to 14. These financial statements are the responsibility of the Manager of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Makaseb Emirates Equity Fund as at December 31, 2005 and of the results of its operations and the cash flow for the period ended December 31, 2005 in accordance with International Financial Reporting Standards.

Furthermore, in our opinion, the financial information provided in the Directors' Report is in agreement with the accounting records of the Fund.

Without qualifying our opinion we draw attention to the Note 5 (a) to the financial statements. The investments at fair value through profit or loss represent investments in listed securities, which present the Fund with the opportunity for return through trading gains. The fair values of these securities are based on quoted market prices. Certain markets and securities may be illiquid and indicative market prices may not necessarily represent realisable value.

Manama – Kingdom of Bahrain
March 26, 2006

Deloitte & Touche
Deloitte & Touche

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

BALANCE SHEET AS AT DECEMBER 31, 2005

	Note	2005 US$
CURRENT ASSETS		
Investments at fair value through profit or loss	5	134,655,542
Due from related parties	6	98,320
Cash and cash equivalents	7	3,561,547
		138,315,409
CURRENT LIABLITIES		
Due to related parties	6	2,185,378
Other payables		237,806
		2,423,184
NET ASSETS		135,892,225
REPRESENTED BY:		
Unit subscriptions		78,526.858
Retained earnings		57,365.367
		135.892,225

The financial statements were approved by the Directors on March 26, 2006 and signed on their behalf by:

Director

The attached notes 1 to 14 form part of these financial statements

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF INCOME
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

	Note	2005 US$
Investment income		
Investment income	8	400,717
Other operating income	8	26,779
		427,496
Gain from investments		
Realised gain on fair value through profit or loss assets		24,862,288
Unrealised gain on fair value through profit or loss assets		36,114,949
		60,977,237
		61,404,733
Expenses		
Investment management fees	4	1,813,582
Investment administrative fees	4	87,746
Performance fees	4	1,637,786
Investment custody fees	4	200,743
Transaction fees		31,155
Registrar and transfer agency fees	4	7,022
Professional fees		4,459
Other expenses	9	256,873
		4,039,366
Net income for the period		57,365,367

The attached notes 1 to 14 form part of these financial statements

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENTS OF CHANGES IN UNIT HOLDERS' EQUITY
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

	Unit Subscriptions US$	Retained Earnings US$	2005 Total US$
Units allotted during the period	217,036,693	-	217,036,693
United redeemed during the period	(138,509,835)	-	(138,509,835)
Net income for the period	-	57,365,367	57,365,367
At 31 December 2005	78,526,858	57,365,367	135,892,225

The attached notes 1 to 14 form part of these financial statements

MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CASH FLOW
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

	2005 US$
OPERATING ACTIVITIES:	
Net income for the period	57,365,367
Adjustment for:	
Unrealised gain on investments	(36,129,662)
Operating cash flow before movements in working capital	21,235,705
Increase in investments at fair value through profit or loss	(98,525,880)
Increase in related party receivables	(98,320)
Increase in related party payables	2,185,378
Increase in other payables	237,806
Cash outflow for operating activities	(74,965,311)
FINANCING ACTIVITIES:	
Units allotted	217,036,693
Units redeemed	(138,509,835)
Cash inflow from financing activities	78,526,858
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,561,547
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,561,547

The attached notes 1 to 14 form part of these financial statements

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

1. STATUS AND ACTIVITIES:

The Makaseb Emirates Equity Fund ("the Fund") is an open-ended investment fund established by Makaseb Funds Company B.S.C. (c) ("the Funds Company"). The Fund is a collective investment scheme established pursuant to the Bahrain Monetary Agency ("BMA") regulations for the operation and marketing of collective investment schemes issued by BMA, Circular Number OG/356/92 of November 8, 1992 and subsequent supplementary circulars. The Fund has been registered at the Ministry of Industry & Commerce and is authorized and approved by the BMA and established for a period of 25 years by the Funds Company. The life of the Fund can be extended by the Funds Company at the end of 25 years.

The Fund was launched on February 8, 2005 and is denominated in US dollars. The objective of the Fund is to achieve long term capital growth by investing primarily in U.A.E. equities listed on the Abu Dhabi Securities Market and the Dubai Financial Market . The Fund's Investment Policies are more fully defined in its Prospectus.

The Fund is managed by Mashreqbank psc ("the Investment Manager") a bank incorporated in the United Arab Emirates. The Fund is administered by Gulf Investment Corporation gsc ("the Administrator"), a financial institution established under the auspices of the Gulf Corporation Council (GCC). The Funds Company is approved by the BMA and incorporated as a Bahrain Joint Stock Investment Company with Commercial Registration Number 55378 and has been established to act as an umbrella vehicle for funds including the Fund.

The financial statements represent the assets, liabilities and operations of the Fund only.

The Fund does not have any employees and obtain the services of the Investment Manager, Administrator and Custodian to operate the Fund.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS):

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective which may be relevant to the Fund:

IFRS 7 - Financial Instruments – Disclosures
IFRIC 4 - Determining whether an Arrangement contains a Lease
IFRIC 9 - Reassessment of Embedded Derivatives

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Fund.

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MAKASEB EMIRATES EQUITY FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared in conformity with the Prospectus dated January 2, 2005 and in accordance with International Financial Reporting Standards (IFRS). The significant accounting policies are as follows:

(a) Accounting Convention

The financial statements are prepared under the historical cost convention, except for the revaluation of certain financial instruments.

The financial statements are prepared in US$, this being the principal currency of the Fund's business.

(b) Investments

The purchase and sales of investments are recognized on the trade date - the date on which the Fund commits to purchase or sell the asset. Investments are initially recognized at fair value. The fair value of the investment is based on quoted market prices at the balance sheet date. The quoted market price used for investments held by the Fund is the current bid price.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Investments are de-recognized when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(c) Other Receivables

Other receivables are non-derivative financial assets of fixed or determinable amounts that are not quoted in an active market. They arise when the Fund sells securities through a broker. Receivables are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition or origination.

(d) Other payables

Other payables are recognized for amounts to be paid in future for goods or services received, whether billed by the supplier or not. These are carried at cost which is the fair value of the consideration to be settled in future.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

(e) **Income**

Dividend income from investments is recognized when the shareholders' right to receive payment has been established, normally the ex-dividend date. Interest income is recognized on a cash basis.

(f) **Foreign Currency Transactions**

Foreign currency transactions are recorded in United States Dollars at the approximate rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currency at the valuation date are translated at the rates of exchange at that date.

The Fund isolates the portion of the results of operations resulting from changes in foreign exchange rates on investments in securities from the fluctuations arising from changes in market prices of investments in securities held.

Translation differences on monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the statement of income.

(g) **Expenses**

All recurring expenses are accounted for on the accrual basis. In respect of the analysis between revenue and capital items presented within the income statement, all expenses have been presented as revenue items except as follows:

Expenses which are incidental to the acquisition of an investment are included within the cost of that investment where it is classified as "fair value through profit or loss".

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(h) **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of bank balances, cash and bank overdrafts.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

4. FEES AND EXPENSES:

(a) **Management Fee**

The Investment Manager is entitled to an annual Management Fee at a maximum of 2% of the Net Asset Value ("NAV") of the Fund for its services as Investment Manager. The Management Fee is calculated on a weekly basis and is payable quarterly in arrears.

(b) **Performance Fee**

The Investment Manager is also entitled to a Performance Fee of up to 10% of the appreciation in the NAV of the Fund in excess of 10% during a calendar year, which is paid annually in arrears.

(c) **Administration Fee**

Under the Administration Agreement, the Fund has agreed to pay the Administrator for its services at a mutually agreed percentage of the NAV of the Fund (subject to a minimum of US$ 30,000). The Administration Fee is accrued on a weekly basis (each valuation day) and is payable quarterly in arrears. The applicable rates are dependant on agreed thresholds and vary from 0.07% to 0.14%.

(d) **Custody Fee**

Under the Custodian Agreement, the Fund has agreed to pay the Custodian for its services at a mutually agreed percentage of the investments of the Fund. The Custody Fee is accrued on a weekly basis (each valuation day) and is payable quarterly in arrears. The applicable rates are dependant on agreed thresholds and vary from 0.125% to 0.30%.

(e) **Registrar and Transfer Agent Fee**

The Fund shall be responsible for the fees and expenses of the Registrar and Transfer Agent. Currently the Registrar and Transfer Agent's fee is being paid at US$ 995 per quarter.

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FOR THE PERIOD FROM INCEPTION TO DECEMBER 31, 2005

5. INVESTMENTS:

	2005 US$
Fair value through profit or loss assets	
Purchases at cost	193,294,372
Sales - proceeds	(120,209,094)
- realised gain on sales	25,440,602
Unrealised gain	36,129,662
Closing fair value at December 31, 2005	134,655,542
Closing cost at December 31, 2005	98,525,880
Unrealised gain	36,129,662
	134,655,542

(a) The investments at fair value through profit or loss represent investments in listed securities, which present the Fund with the opportunity for return through trading gains. The fair values of these securities are based on quoted market prices. Certain markets and securities may be illiquid and indicative market prices may not necessarily represent realisable value.

6. DUE FROM/(TO) RELATED PARTIES:

	2005 US$
Due from:	
Mashreqbank psc.	98,320
Due to:	
Mashreqbank psc. – Management fees	(547,592)
– Performance fees	(1,637,786)
	(2,185,378)

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7. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents comprise bank balances and cash held by Mashreqbank psc for which no regular interest has been paid.

8. INVESTMENT INCOME:

An analysis of the Fund's income is as follows:

	2005 US$
Investment income:	
Listed dividends – Overseas	400,717
Other operating income:	
Deposit interest	26,779
	427,496

9. OTHER EXPENSES:

	2005 US$
Launching cost	246,476
Advertisement	3,170
Bank charges	1,635
Miscellaneous	5,592
	256,873

MAKASEB EMIRATES EQUITY FUND
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NOTES TO THE FINANCIAL STATEMENTS
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10. BUSINESS AND GEOGRAPHIC SEGMENTS:

The Directors are of the opinion that the Fund is engaged in a single segment of business, being investments in equity securities issued by companies operating and generating revenue in the Middle East Region, principally the United Arab Emirates, and therefore no further segmental reporting has been provided.

11. RELATED PARTY TRANSACTIONS:

The Investment Manager, is also the parent company of the Funds Company.

Mashreq Securites L.L.C. is a related party as it is a fully owned subsidiary of Mashreqbank psc.

The following transactions occurred between the Fund and its related parties:

Related party	Nature of Transactions	Amount Earned/ (Incurred) US$	Receivable (payable) as at December 31, 2005 US$
Mashreqbank psc, Dubai	Interest income	26,779	-
Mashreqbank psc, Dubai	Management fee	(1,813,582)	(547,592)
Mashreqbank psc, Dubai	Performance fee	(1,637,786)	(1,637,786)
Mashreq Securities L.L.C., Dubai	Note 11 (a)	(16,656)	-

(a) Proceeds from the sale of securities, amounts incurred on the purchase of securities and broker fees for the purchase and sale of securities.

(b) During the period Mashreqbank psc Dubai has invested US$ 5,444,570 (433,400 units) in the Fund for which no subscription fees were paid.

12. RISK MANAGEMENT:

(a) **Currency Risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund holds assets denominated primarily in GCC currencies, rather than the US Dollar, the functional currency. The Fund is not exposed to currency risk since these GCC currencies are pegged to the US Dollar.

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12. RISK MANAGEMENT: (CONTINUED)

(b) **Liquidity Risk**

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell financial assets quickly at close to fair value.

The Fund manages liquidity risk by maintaining sufficient short term deposits with banks.

(c) **Market Risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Fund's market risk is managed through diversification of the investment portfolio exposure.

The Fund's overall market positions are monitored on a daily basis by the Fund Manager.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences may arise between the carrying values and the fair value estimates.

The fair values of financial instruments, are not significantly different from the carrying values included in the financial statements.

14. NET ASSET VALUES:

	Net Asset Value US$	Number of Units in issue	Net Asset Value Per Unit US$
As at December 31, 2005	135,892,225	6,799,290	19.98624

The net asset value per unit is based on net assets and units outstanding at the period end.

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